

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

The HELP II Program

EXECUTIVE SUMMARY

| | | | |
|---|--------------------|--|--------------------|
| Applicant: Pediatric and Family Medical Center dba Eisner Pediatric and Family Medical Center (“EPFMC”) 1530 South Olive Street Los Angeles, California Los Angeles County | | Amount Requested: \$400,000 Requested Loan Term: 15 years Date Requested: April 24, 2003 Resolution Number: HII-145 | |
| Project Site: 1500 and 1530 South Olive Street, Los Angeles, California Facility Type: Community Clinic | | | |
| Use of Loan Proceeds: Loan proceeds will be used to construct a 30,000 square foot medical building and renovate an adjacent 21,000 square foot medical and dental facility. | | | |
| Type of Issue: HELP II Loan Prior HELP II Borrower: No | | | |
| Financial Overview: EPFMC has a long and successful operating history, which has generated surpluses over the last 9 years. EPFMC has enjoyed strong patient demand for its services and wishes to expand its operations. EPFMC’s balance sheet continues to improve and is quite strong, with significant financial resources and minimal long-term debt. | | | |
| Sources of Revenue: (FYE 6-30-02) | | <u>Amount</u> | <u>Percent</u> |
| Outpatient services | \$6,355,225 | 71.0% | |
| Net assets released from restrictions | 1,887,158 | 21.1% | |
| County grants | 251,323 | 2.8% | |
| Pediatric and Family Medical Foundation | 125,000 | 1.4% | |
| Other | 106,665 | 1.2% | |
| Debt forgiveness income | 95,000 | 1.1% | |
| Donations by individuals | 82,895 | 0.9% | |
| United Way | <u>44,617</u> | <u>0.5%</u> | |
| Total revenue | <u>\$8,947,883</u> | <u>100.0%</u> | |
| <u>Estimated Sources of Funds:</u> | | <u>Estimated Uses of Funds:</u> | |
| HELP II loan | \$400,000 | Construction/renovation | \$7,200,000 |
| HealthCAP loan with NCBDC* | 1,000,000 | Financing costs | <u>25,000</u> |
| Capital campaign** | 5,800,000 | | |
| Borrower contribution | <u>25,000</u> | | |
| Total Sources | <u>\$7,225,000</u> | Total Uses | <u>\$7,225,000</u> |
| * Subject to approval by the underwriting department of the National Cooperative Bank Development Corporation. ** EPFMC has received capital campaign funding of \$5.8M as of April 8, 2003. | | | |
| Legal Review: No information was disclosed to question the financial viability or legal integrity of the Applicant. | | | |
| Staff Recommendation: Staff recommends the Authority approve a resolution for a HELP II Loan in an amount not to exceed \$400,000 for a term not to exceed 15 years for Pediatric and Family Medical Center, subject to final approval of the HealthCAP loan and the standard HELP II loan provisions. | | | |

STAFF SUMMARY AND RECOMMENDATION

**Pediatric and Family Medical Center
dba Eisner Pediatric and Family Medical Center (“EPFMC”)**

April 24, 2003

Resolution Number: HII-145

PURPOSE OF FINANCING: As part of EPFMC’s overall strategic plan, EPFMC is embarking in its final phase of its development project. This project was designed to meet EPFMC’s growing demand for its dental, medical and other services. EPFMC is presently at full capacity in its Pediatric department, Family Practice and Dental, thus the proposed expansion will allow them to meet demand and significantly reduce patient waiting times.

EPFMC was a grant recipient of \$250,000 from Cedillo-Alarcón Community Clinic Investment Act of 2000. The grant was used for the initial phase of the development project.

Construction and renovation of South Olive Street site.....\$7,200,000

EPFMC is in the final phase of constructing a new six-story 30,000 square foot building located at 1500 Olive Street, adjacent to its existing two-story 21,000 square foot facility located at 1530 Olive Street. The approximate new construction costs will be \$5.3 million, while the renovation costs of the existing building will be \$1.9 million.

EPFMC began construction on the new building in January 2001 and anticipates completion by August 2003. The total construction and renovation costs paid through April 8, 2003 are \$5.2 million, leaving costs of \$2 million to be completed, of which \$1.4 million will be funded by HELP II and HealthCAP loans. The balance of \$600,000 will be paid from capital campaign funds, which have been committed but not received.

The construction and renovation will permit EPFMC to increase clinical services for medically indigent patients by more than 47,000 additional patient visits each year, from its current level of 48,000, an increase of 100%. In addition, dental capacity will increase 77%, early childhood and development screening programs will be tripled, childcare slots will increase by 54, and mental health will increase from 513 visits to 2,600 visits, an increase of 500%.

The expansion will also reduce patient wait times by at least one-half and in some cases by as much as two-thirds. This will result in more efficient operations by reducing the number of patients who must visit the more costly emergency room care.

Some of capital campaign donors include the Eisner Foundation, Weingart Foundation, W.M. Keck Foundation, the Ahmanson Foundation, California Endowment, Ralph P. Parsons Foundation, Cedillo Alarcon, as well as various others. These donors exhibit the local and regional support for the proposed project.

The estimated “as improved” value of the new building is \$5.3 million, leading to a combined loan (HELP II and HealthCAP) to value ratio of 26%. EPFMC currently has no existing liens on the new property and both loans will be secured by this property. The Authority will waive the standard appraisal requirement due to the low loan to value ratio.

| | |
|------------------------------|---------------------------|
| Financing Costs | <u>25,000</u> |
| HealthCAP Fees..... | \$15,000 |
| Authority Fee | 5,000 |
| Title/escrow fees | 5,000 |
| Total..... | <u>\$7,225,000</u> |

Financing structure:

- 15-year fully amortized loan in the amount of \$400,000.
- 180 equal monthly payments of approximately \$2,762 (total annual payments of \$33,144).
- Total interest payments of approximately \$92,219.
- Second position lien on the new property located at 1500 South Olive Street, Los Angeles, California (subordinate to NCBDC HealthCAP loan of \$1 million).
- Second position lien on gross revenue pledge, subordinate to the HealthCAP loan).
- Estimated value of collateral securing this loan is \$5.3, leading to a combined loan to value ratio of 26%.
- Standard HELP II appraisal requirements will be waived due to the low loan to value ratio.

II. FINANCIAL STATEMENTS AND ANALYSIS:
Pediatric and Family Medical Center
dba Eisner Pediatric and Family Medical Center
Statement of Activities

| | Seven-Months Period Ended | For the Year Ended June 30, | | |
|--|--------------------------------------|------------------------------------|---------------------|---------------------|
| | January 2003 (Unaudited) | 2002 | 2001 | 2000 |
| UNRESTRICTED NET ASSETS | | | | |
| Support and revenue: | | | | |
| Outpatient services | \$ 4,189,270 | \$ 6,355,225 | \$ 4,856,588 | \$ 4,189,293 |
| County grants | 74,144 | 251,323 | 226,539 | 409,806 |
| United Way | 29,834 | 44,617 | 59,372 | 66,286 |
| Pediatric and Family Medical Foundation | 72,917 | 125,000 | 264,795 | 318,217 |
| Donations by individuals | 4,300 | 82,895 | 3,200 | 18,850 |
| Debt forgiveness income | - | 95,000 | 95,000 | 95,000 |
| Other | 45,922 | 106,665 | 52,636 | 38,934 |
| Total unrestricted support and revenue | <u>4,416,387</u> | <u>7,060,725</u> | <u>5,558,130</u> | <u>5,136,386</u> |
| Net assets released from restrictions | <u>3,269,269</u> | <u>1,887,158</u> | <u>816,833</u> | <u>346,775</u> |
| TOTAL SERVICE REVENUE | <u>7,685,656</u> | <u>8,947,883</u> | <u>6,374,963</u> | <u>5,483,161</u> |
| Expenses: | | | | |
| Salaries and related expenses | 3,092,483 | 4,324,779 | 3,422,861 | 2,875,463 |
| Outside professional services | 229,011 | 772,462 | 713,962 | 700,150 |
| Supplies | 234,960 | 563,724 | 561,733 | 645,180 |
| Other insurance | 169,020 | 361,668 | 256,083 | 169,337 |
| Payroll taxes | 207,566 | 290,784 | 236,502 | 197,936 |
| Depreciation | 77,879 | 118,587 | 105,709 | 103,851 |
| Malpractice insurance | 50,153 | 99,257 | 80,965 | 85,253 |
| Utilities | 45,267 | 68,696 | 66,704 | 82,243 |
| Pension plan expenses | 50,954 | 68,599 | 68,776 | 62,641 |
| Equipment repairs | 25,415 | 63,257 | 45,695 | 33,218 |
| Telephone | 32,847 | 59,579 | 54,041 | 50,685 |
| Meals and entertainment | 15,606 | 59,415 | 69,544 | 39,789 |
| Parking | 32,303 | 56,489 | 27,078 | 19,999 |
| Administrative planning | 14,502 | 44,208 | 21,999 | 19,245 |
| Maintenance agreements | 23,691 | 35,445 | 23,815 | 15,531 |
| Subscription | 4,958 | 32,775 | 26,032 | 12,574 |
| Rent | 24,905 | 32,125 | 12,710 | - |
| Printing | 17,926 | 30,797 | 19,495 | 24,768 |
| Conference and education | 7,961 | 24,364 | 5,814 | 14,228 |
| Computer expenses | 8,955 | 23,911 | 16,723 | 21,831 |
| Clinic maintenance | 14,026 | 23,295 | 33,287 | 34,560 |
| Other | 45,963 | 201,556 | 217,309 | 116,551 |
| | <u>4,426,351</u> | <u>7,355,772</u> | <u>6,086,837</u> | <u>5,325,033</u> |
| Increase in unrestricted net assets | <u>3,259,305</u> | <u>1,592,111</u> | <u>288,126</u> | <u>158,128</u> |
| Temporarily restricted net assets | | | | |
| Contributions for charitable purposes | 373,487 | 4,440,783 | 2,057,175 | 296,500 |
| Net assets released from restrictions | <u>(3,269,269)</u> | <u>(1,887,158)</u> | <u>(816,833)</u> | <u>(346,775)</u> |
| Increase (decrease) in temporarily restricted net assets | <u>(2,895,782)</u> | <u>2,553,625</u> | <u>1,240,342</u> | <u>(50,275)</u> |
| Increase in net assets | 363,523 | 4,145,736 | 1,528,468 | 107,853 |
| Net assets, beginning of year | <u>\$ 7,941,074</u> | <u>\$ 3,795,338</u> | <u>\$ 2,266,870</u> | <u>2,159,017</u> |
| Net assets, end of year | <u>\$ 8,304,597</u> | <u>\$ 7,941,074</u> | <u>\$ 3,795,338</u> | <u>\$ 2,266,870</u> |

Pediatric and Family Medical Center
dba Eisner Pediatric and Family Medical Center
Balance Sheet

| | As of | As of June 30, | | |
|---|----------------------|-----------------------|---------------------|---------------------|
| | January 31, | 2002 | 2001 | 2000 |
| | 2003 | | | |
| | (Unaudited) | | | |
| Assets | | | | |
| Current assets: | | | | |
| Cash | \$ 1,299,002 | \$ 4,079,120 | \$ 1,424,467 | \$ 86,091 |
| Accounts receivable, net | 1,152,132 | 1,110,438 | 845,044 | 821,233 |
| Prepaid expenses and deposits | 33,462 | 33,462 | 20,871 | 33,733 |
| Total current assets | 2,484,596 | 5,223,020 | 2,290,382 | 941,057 |
| Property and equipment, net | 7,554,368 | 4,436,076 | 3,255,461 | 3,212,831 |
| Total assets | \$ 10,038,964 | \$ 9,659,096 | \$ 5,545,843 | \$ 4,153,888 |
| Liabilities and net assets | | | | |
| Current liabilities: | | | | |
| Accounts payable | \$ 385,482 | \$ 376,239 | \$ 395,443 | \$ 336,454 |
| Accrued expenses | 391,223 | 384,120 | 302,399 | 233,052 |
| Payable to affiliate | 7,663 | 7,663 | 7,663 | 177,512 |
| Total current liabilities | 784,368 | 768,022 | 705,505 | 747,018 |
| Long term notes payable (1) | 950,000 | 950,000 | 1,045,000 | 1,140,000 |
| Total liabilities | 1,734,368 | 1,718,022 | 1,750,505 | 1,887,018 |
| Net assets: | | | | |
| Unrestricted | 7,344,093 | 4,084,789 | 2,492,679 | 2,204,553 |
| Temporarily restricted | 960,503 | 3,856,285 | 1,302,659 | 62,317 |
| Total net assets | 8,304,596 | 7,941,074 | 3,795,338 | 2,266,870 |
| Total liabilities and net assets | \$ 10,038,964 | \$ 9,659,096 | \$ 5,545,843 | \$ 4,153,888 |

Financial Ratios:

| | Proforma (2) | | | |
|----------------------------------|---------------------|--------|-------|-------|
| | FYE 2002 | | | |
| Debt Service Coverage (x) | 3.06 | N/A | N/A | N/A |
| Debt/Unrestricted Net Assets (x) | .58 | .23 | .42 | .52 |
| Margin (%) | | 17.79% | 4.52% | 2.88% |
| Current Ratio (x) | | 6.80 | 3.25 | 1.26 |

(1) Note payable is owed to the Community Redevelopment Agency of the City of Los Angeles. No payments are required on this note and are deemed paid if EPFMC meets certain requirements. If EPFMC meets the requirements for any given year, the note payable is reduced by \$95,000 (see debt forgiveness income). If they do not meet these requirements, no payments are required, however the note payable balance is not reduced by the \$95,000.

(2) Recalculates June 2002 audited results to include the impact of the HELP II and HealthCAP financings. In addition, debt service coverage ratio does not include the \$1.3 million non-operating revenue for net assets released from restrictions related to the building campaign.

Financial Discussion:

EPFMC has a long and successful operating history, which has generated surpluses over the last 9 years. EPFMC has enjoyed strong patient demand for its services and wishes to expand its operations.

EPFMC was originally founded in 1920 and has in excess of 80 years of operating history. EPFMC has experienced a strong demand for its services exhibited by patient visits, which have increased from 17,000 in fiscal year 1990 to 48,000 in fiscal year 2002. During our review period, patient revenues have increased from \$4.2 million in fiscal year 2000 to \$6.3 million in fiscal year 2002, an increase of 50%. Patient revenues are projected to exceed \$7 million during the current fiscal year. Management expects that upon completion of the new construction and renovation of the existing facility, patient revenues and patient visits per year are expected to be \$11.5 million and 95,000 respectively.

EPFMC has managed to expand its services and continue to operate with surpluses. The last three audited fiscal years have resulted in positive results ranging from \$158,000 to \$1.6 million. The reason fiscal year 2002 has such a large surplus is that approximately \$1.3 million of the “net assets released from restriction” were non-operating revenues related to contributions for the building campaign. Thus, the operational income is approximately \$300,000 for fiscal year 2002, more in line with fiscal year 2000 and 2001.

The amount of patient revenues received by EPFMC released from restrictions for fiscal year 2000 through 2002 respectively, were \$346,775, \$816,000, and \$587,000. These revenues provide direct cost reimbursement to EPFMC for uncompensated care to low-income/uninsured patients and are received from private non-profit foundations such as California Endowment, California Wellness Foundation, Unihealth Foundation, and Queenscare.

EPFMC’s balance sheet continues to improve and is quite strong with significant financial resources and minimal long-term debt.

EPFMC’s has an impressive \$8 million in net assets, with \$4 million in cash, as shown on the most recent audited financial statements for fiscal year 2002. Its cash position as of January 2003 has declined to \$1.3 million as a result of capital campaign funds being allocated for construction costs.

EPFMC has only \$950,000 in long-term debt compared to \$4 million in unrestricted net assets, leading to a favorable debt to unrestricted net assets ratio of .23x. In addition, since there are no payments on this debt (see note 1, page 4) it currently has no long-term debt payments. The proforma operating debt service ratio is a strong 3.06x. This indicates that EPFMC should be easily be able handle the debt service payments for the HELP II and HeathCAP loans.

III. UTILIZATION STATISTICS:

| Eisner Pediatric and Family Medical Center | | | | |
|---|----------------------|------------------------------------|---------------|---------------|
| (Patient Visits) | | | | |
| 7 Months | | | | |
| <u>Type of Service</u> | <u>Ended Jan. 31</u> | <u>Fiscal year ending June 30,</u> | | |
| | <u>2003</u> | <u>2002</u> | <u>2001</u> | <u>2000</u> |
| Medicare | 207 | 330 | 322 | 271 |
| Medi-Cal | 3,297 | 5,354 | 5,323 | 5,426 |
| Medi-Cal - Managed Care | 10,168 | 15,869 | 14,665 | 13,228 |
| Healthy Families | 1,214 | 1,982 | 1,827 | 18 |
| Private Insurance | 261 | 433 | 409 | 296 |
| LA Co. Public Private Partnership | 11,253 | 18,366 | 18,356 | 16,499 |
| Self-Pay/Sliding Fee | 153 | 197 | 197 | 343 |
| All Other Payers | 3,772 | 6,239 | 4,956 | 4,350 |
| Totals | *32,328 | 48,770 | 46,055 | 40,431 |

* Projected patient visits for fiscal year 2003 are 55,000.

IV. ORGANIZATION:

Background: Eisner Pediatric and Family Medical Center was founded in 1920 and is one of the oldest healthcare institutions in Los Angeles. Originally named the California Mothers and Babies Hospital, since its inception, EPFMC has offered a comprehensive range of healthcare and social services for low-income children and families.

EPFMC's missions are to provide comprehensive high-quality medical and dental care, early intervention programs and family support services for the children and families of Los Angeles. Its goals are to ensure that services offered to young, inner city children and their families are comprehensive and seamlessly integrated, to reach beyond the conventional clinical models, to include strong educational components, early identification and intervention service and a broad range of other assistance.

EPFMC institutional model places families at the heart of healthcare services, thus ensuring that children are not simply free from disease but also truly healthy in all aspects of their lives. The practice includes internal medicine, dentistry, psychology, health education and social work. With medical and dental services as a core component, EPFMC has also committed substantial resources to allied programs that include child development, mental health counseling, children's day care, case management and health education. Combined these disciplines enable EPFMC to meet the multiple needs of its patients.

In 1991, EPFMC was a founding member of the Coalition for Community Health, an organization made up of healthcare providers, community-based organizations and schools, which are focused on the issue of increasing access to care for low-income people. In 1996, EPFMC helped found

the Community Clinic Association of Los Angeles County, a member organization of community clinics dedicated to preserving the safety net and increasing access to care. EPFMC remains an active member of both these organizations.

Licenses: EPFMC is licensed with the State Department of Health Services as a Community Clinic.

Contracts: EPFMC contracts with Medi-Cal, Medicare, CHDP, private insurance, foundations and various government entities.

Service Area and Competition:

| <u>Health Facility Location</u> | <u>Number of Patients</u> | <u>Market Share (%)</u> | <u>Estimated Distance Away</u> |
|---|---------------------------|-------------------------|--------------------------------|
| Clinica Oscar Ramero | 3,353 | 13 | 4.5 miles |
| South Central Health Center | 4,773 | 19 | 2.5 miles |
| California Family Care | 580 | 2 | One block |
| Eisner Pediatric and Family Medical Center | 16,219 | 66 | N/A |

V. OUTSTANDING DEBT:

| <u>Description</u> | <u>Original Amount</u> | <u>Amount Outstanding As of 6/30/02 (audited)</u> | <u>Estimated Amount Outstanding After Proposed Financing</u> |
|---|------------------------|---|--|
| Existing: | | | |
| Note payable, Community Redevelopment Agency, 1992* | \$1,900,000 | \$950,000 | \$950,000 |
| Proposed: | | | |
| CHFFA HELP II Loan, 2003 | | N/A | 400,000 |
| CHFFA HealthCAP Loan, 2003 | | N/A | 1,000,000 |
| TOTAL DEBT | | N/A | \$2,350,000 |

* Lien on the existing property located at 1530 Olive Street.

VI. SECTION 15438.5 OF THE ACT:

By obtaining this financing, EPFMC will be able significantly increase its capacity and provide additional services to indigent children and families free of charge. It will cover a variety of programs including Los Angeles County Public Private Partnership and State of California's "Expanded Access to Primary Care Program."

VII. LEGAL REVIEW:

Staff has reviewed the Applicant's responses to the questions contained in the Legal Status portion of the Application. No information was disclosed to question the financial viability or legal integrity of this applicant.

VIII. STAFF RECOMMENDATION:

Staff recommends the Authority approve a resolution for a HELP II Loan in an amount not to exceed \$400,000 for a term not to exceed 15 years for Eisner Pediatric and Family Medical Center subject to final approval of the HealthCAP loan and the standard HELP II loan provisions.